



AGENDA NO: C-1

MEETING DATE: August 9, 2016

Staff Report

TO: Honorable Mayor and City Council **DATE: August 2, 2016**
FROM: David Buckingham, City Manager
SUBJECT: Consideration and Decision on Management Partners' Recommendation Reference Contracted Relationship for Law Enforcement and other Management Partners Recommendations

RECOMMENDATION

Staff recommends the City Council determine **not** to pursue research and consideration of a contracted (outsourced) relationship for law enforcement services in Morro Bay this year, next year, or for a minimum of a five to ten-year period. Further, staff recommends the Council make the same determination for two additional Management Partners recommendations: possible outsourcing of the Morro Bay Fire Department to Cal Fire, and possible outsourcing of Morro Bay Harbor Patrol operations to a private contractor.

ALTERNATIVE

The City Council could direct staff to begin what would likely be a 4-6 month, or more, process to research the pros and cons of outsourcing law enforcement to the Sheriff's Office ("SO"). This process would include robust public outreach, and detailed negotiations with the SO on the terms of a possible contract. Should the Council select this alternative, regular public updates to Council should also be included. While this is a legitimate alternative the Council could consider, staff reiterates its recommendation that the Council not pursue further study on this question and consider this recommendation from the 2015 Management Partners study as "decided against."

RESOURCE IMPACT

It is unclear whether savings may be possible with outsourcing the identified work programs, but even if that were true, those decisions will have no direct impact on the City's current year budget or our 10-year budget forecast. That is, the City is budgeted for continued operation of Morro Bay Police, Fire and Harbor Departments this year and can likely sustain service at current levels for at least the next five years. Further, determining not to pursue

Prepared By: DWB

Dept Review: _____

City Manager Review: DWB

City Attorney Review: JWP

research on outsourcing will save considerable staff time and energy over the next 12 months, effort that will be better spent improving our basic services and continuing economic development efforts that are likely to further improve our general fiscal situation and our ability to provide robust Police, Fire and Harbor services in particular.

BACKGROUND AND DISCUSSION

Why are we having this discussion now?

The May 2015 *City of Morro Bay Financial and Organizational Study* (<http://www.morrobay.ca.us/documentcenter/view/9356>) conducted by Management Partners Inc. made 65 specific recommendations the City should consider to improve fiscal or organizational health. In the interest of transparency, good government, and robust community interaction, the City Council and staff made a commitment to at least consider, in public, *every* recommendation made in that study.

At its August 2015 meeting, the City Council voted unanimously to wait until fiscal year 2017/18 to consider the recommendation of outsourcing law enforcement activities. That is, the City is on record, in public, in writing, with a Council resolution online, that we would begin to consider MBPD outsourcing next year.

With the departure of Police Chief Christey to higher paying Police Chief position in Pacific Grove, the City Manager became concerned about our ability to recruit a new Police Chief when there exists the possibility of outsourcing the MBPD in 2017. That is, any decent potential chief conducting basic due diligence before applying for the open Morro Bay position would see the City was planning to consider outsourcing in 2017 and would likely choose not to apply. As the City Manager, I remain quite concerned about that and am convinced, until the City makes a decision whether or not to outsource PD, we will **not** have an effective recruitment for Police Chief.

The City Manager noted this concern to the City Council in public at the July 13, 2016, Council Meeting. At that meeting, the Council placed this item on the agenda to consider **whether or not** research an outsourced relationship for law enforcement services.

Why does the City occasionally hire an external consultant to conduct a financial and organizational study?

There appears to be some level of concern with the City's practice of using an external, expert, organizational health consultant, such as Management Partners, Inc., on a periodic basis.

That management consulting process is not unlike a well-baby check-up, an annual dental exam, or a regular senior-adult physical exam. Just like we often have a medical professional check our bodily systems to ensure they are functioning well, it is a best practice in municipal management to get an external checkup on a periodic basis. Doctors sometime tell us we need to lose a few pounds, or strengthen our heart by exercising, or they find a cancer. Similarly, an external management consultant may find the City is over- or under-staffed in certain areas, identify practices that are outdated and should be changed, or identify growing concerns that should be addressed before they become consuming.

Like a doctor may recommend an action that does not fit with our preferred lifestyle, a municipal management consultant may also make a recommendation that does not fit with our community's priorities and values. It is good and healthy to hear that recommendation, consider it, and then make the best decision for our life or the life of our community.

The City commissioned an organization health survey in 2008, and again in 2015. We should definitely consider another similar survey, perhaps from a different consultant, in the 2020 to 2025 timeframe.

What did the 2015 Management Partners Study Recommend?

As noted, the 2015 Management Partners report provided 65 specific recommendations for the City to consider. Those recommendations ranged from easy, internal management improvements to creative cost saving measures, to major organizational changes.

For example, the 2015 study noted the City had been contracting with the same auditor for ~10 years and it would be wise to change auditors on a regular basis. The City did that and our new auditor identified a few items of interest the City has now corrected.

The 2015 report also planted the idea of offering an Early Retirement Management Program both to provide employees some flexibility in retirement and save the City money. The City Council approved that program in April 2016; and we are in the middle of implementing the program. The program will allow the City to save over \$435,000 in labor costs in the form of CALPERS retirement contributions in the next few years.

The 2015 organizational assessment also made three specific recommendations to study the pros and cons of outsourcing three major City departments or functions: Police, Fire and Harbor Operations. Following are those specific recommendations:

- Recommendation #29: (Outsource Police) Obtain formal proposals from the San Luis Obispo County sheriff on the cost of providing law enforcement service to the City based on two or three service levels. If this option is realistic, prepare to educate the public that service levels will change.
- Recommendation #34: (Outsource Harbor Operations) Investigate contracting all daily operations of the Harbor Department to a professional harbor management company. By contracting most harbor operations, and moving harbor maintenance and eliminating the harbor patrol function (both recommended for consideration later in this report), the Harbor Department can become a small department focused purely on citywide economic development, with the understanding that the harbor and oceanfront is a core economic development opportunity for the City. By reducing labor costs in the Harbor Department, the City will have more money for needed maintenance and capital repairs.
- Recommendation #37: (Outsource Fire) Request a proposal from CAL FIRE to provide the lowest possible level of service to Morro Bay and build up to a desirable service level from that point. Obtaining an estimate from CAL FIRE for reduced levels of service may allow for General Fund savings. However, pursuing a contract with CAL FIRE to match existing service levels is unlikely to generate cost savings until the Fire side CalPERS fund is paid off in FY 2021.

What Could Be the Benefits of Outsourcing MBPD?

While outsourcing is sometimes a great option to improve service in certain areas, our Police Department provides an exceptional level of service to our community. My personal observations of the

professionalism, compassion and community-engagement of our Police officers and administration is matched by the numerous laudatory comments we regularly receive from residents, visitors and business owners. We have a tremendous Police Department that knows our community. My assessment is, except in a few marginal areas such as the possible reintroduction of K9 operations, and perhaps a greater number of officers working from the Morro Bay Police Station, (Sheriff deputies responsible for other North Coast communities could be based from the MB Station), there will be no measureable *service improvements* to be gained by outsourcing at this time.

Therefore, the primary remaining benefit to consider outsourcing would need to be financial. Without substantial research and coordination with the Sheriff's Office, it is difficult to accurately project the possible savings of a contracted service arrangement. However, in order to provide the City Council some very rough information to make an initial determination, we asked the Sheriff Department to do some initial analysis of possible savings.

The Sheriff Department's rough, initial analysis is a contract that maintained our existing level of service (same number of officers on shift, same response time as we currently enjoy, etc.) could save the City around \$500,000 per year.

Since the question before the Council at this time is not "whether or not to outsource," but, "whether or not to *begin researching the pros and cons of outsourcing*," City Staff has **not** committed significant resources to examine the financial aspects of a possible contracted relationship.

It is reasonable, however, to take the initial rough estimate at face value and assume detailed research and negotiation may result in around \$500,000 per year of savings - \$500,000 per year on the Police Department's ~\$3,200,000 annual budget represents around a 15% savings.

What Is the City's Current and Projected and Economic Outlook?

The City's 2016/17 budget is balanced. Said another way, we can currently afford our Police Department (and Fire and Harbor) at their existing levels of service. Further, our 10-year Budget Forecast (produced as part of the 2015 Management Partners Study) demonstrates the City will likely be able to continue to provide our existing level of service in all Departments for the next 5-10 years. That could change, but our *most reasonable current* assessment is the City will be able to continue to provide Police, Fire, and Harbor services, in addition to street paving, recreation, parks, and City maintenance – **at existing levels of service** - in the years ahead.

It is important to reiterate, however, the City has perhaps \$3,000,000 per year of unfunded requirements. For example, we need around \$1.5M per year to maintain our streets, but currently can only afford about \$500,000 per year. So, we have a \$1M annual shortfall of revenues against requirements solely in the area of streets rehabilitation, repair and maintenance. In the areas of facility replacement, Police, Fire and other fairly basic services, the City is around an additional \$2M per year short in revenues compared to the services we believe our community wants, deserves and should be able to eventually support.

That \$3M gap is quite significant for a city with \$13M of revenues. Potentially money-saving opportunities such as outsourcing Police, Fire or Harbor are one way to lessen that gap and provide the services our community desires. There is, however, an alternative.

If the City continues to pursue appropriate, measured, community-supported revitalization and economic development opportunities, then it is reasonable to believe our general economic situation could improve,

perhaps substantially, in the 5-10 years ahead. Following are some examples:

- The proposed / planned revitalization / reconstruction of the Libertine and Off the Hook lease sites with 20 or more 2nd floor hotel rooms will likely generate \$100,000 or more of transient occupancy tax (TOT) revenue per year.
- The proposed 2018 construction of a \$12-15M new aquarium at the existing aquarium site will almost certainly result in making Morro Bay an even more desirable destination, increasing both overnight and daytime visitation, and further improving TOT and sales tax revenues.
- The potential revitalization of the City-owned Embarcadero (Front Street) Parking Lot / Distasio's area has further potential to measurably improve revenues.
- Potential redevelopment of the ~26-acre Atascadero Road site (when the existing Waste Water Treatment Plant is decommissioned in 2021) into a community and visitor serving area would likely include some revenue-producing activities that could further improve the City's fiscal health.
- The increasing likelihood the abandoned Morro Bay Power Plant could be fully decommissioned and redeveloped, perhaps in the next 5 years, would undoubtedly have a huge impact on the City's fiscal health.

To summarize this section, and put it in context:

- The City's current budget and future budget projections include our full-service, in house, Police, Fire and Harbor Departments. Our current year budget is balanced and our 10-year forecast looks manageable.
- The City does not have to cut services at this time. While we **cannot** afford to do much more than we currently are, we are not forced to make Police, Fire or Harbor cuts at this time.
- The City is laying a foundation for reasonable and appropriate economic growth. If the community continues to support such measured revitalization and redevelopment, then revenues will begin to improve in a way that will allow us to gradually improve our level of service (street paving, facility / public space maintenance, recreation offerings, etc.) without what may seem like drastic measures such as outsourcing Police, Fire or Harbor operations.

What Are the Community's Priorities with respect to "In-House" Police versus Improving Other Services?

One way to consider the question of possible contracted law enforcement services is to consider what the City might do with \$500,000 per year that might be saved in a contracted law enforcement relationship. Again, it is important to stress we must make some rough assumptions about potential savings and a \$500,000/year saving is not an unreasonable assumption according to the Sheriff's office.

Saving \$500,000 through a law enforcement contract could, for example, be allocated to streets. That would essentially double our street repair and maintenance budget. (But we would still be at least \$500,000 short of our requirement.)

So, a way to think about that is what does our community value more - an in-house Police Department or a

doubling of effort on streets? While the Council is certainly better placed than staff to answer that question, staff's assessment is our community, at this time, based on our fiscal situation, values in-house Police greater than a measurable improvement in street repair and maintenance.

That is **not** to say, at all, our community accepts our streets as they are. However, our community likely values our in-house Police Department even more than improved streets. And, importantly, there are a number of opportunities to improve our streets without contracting out Police.

Using that measurement, there is further good reason to reject the concept of a contracted law enforcement relationship at this time. Might conditions change in 5-10 years? They might. However, given current fiscal conditions, staff is comfortable rejecting further research of a contracted law enforcement relationship at this time.

If the Council determines our community likely values improved streets or expanded recreations services over an in-house Police Department, then directing staff to further research contracting opportunities for law enforcement is appropriate.

What About Fire and Harbor Operations?

As noted previously, the 2015 Management Partners report also recommended researching a contracted relationship for Fire and Harbor Operations.

Like our Police Department, our Fire Department and Harbor Departments both provide exceptional service to our community and our community lets us know that on a regular basis.

Over the past year, our Council and staff have heard, numerous times, in public comment, from numerous expert witnesses, our Harbor is the best-run Harbor on the west coast. That goes directly to the professionalism and excellence of our Harbor Patrol. Like the Police Department, there is no up-side in the area of improving service with outsourcing Harbor – we will not get better service. And, for many of the same reasons noted about with Police, the community likely values an in-house Harbor Patrol operations.

Similarly, the Morro Bay Fire Department provides an extraordinary level of service to our community with the medical response aspect of our FD being increasingly important to a large segment of our population. Like Police and Harbor, we are not going to improve service by outsourcing Fire.

The fact, to some extent, the City considered those questions following the 2008 Management Partners report only underscores those observations as likely representative of today's situation. The fact the City is in improved financial and economic position since that time lessens the likelihood of a different outcome.

What About Dispatch?

In 2014, the City contracted with the County to provide 911 dispatch services for police and fire. The staff reports and minutes clearly demonstrate the primary reason staff recommended contracting for dispatch was to improve service. Specifically, the interconnected, County-wide response service after a 911 call was placed, not necessarily the connection time or amount of time a 911 caller spent on the phone.

While the primary motivation to join county dispatch was to improve service, the staff report did state the

following: “Although, not the primary reason for suggesting a change, cost is obviously an important issue. Based on the report and information we have received as to cost, the City of Morro Bay will save a minimum of \$42,912 the first year.”

Staff is working to determine what level of cost savings were actually achieved by contracting dispatch the first year, and last year. First year savings appear to be close to what was expected. However, it appears that the savings in the following year may not be as significant as noted might be possible, primarily because the number of calls from Morro Bay to dispatch has increased measurably. For example, just on the Fire side of the equation, we had a \$17,000 increase in costs in 2015/16 due to a 3.3% increase in the number of 911 calls from Morro Bay. Every call to 911 from Morro Bay, whether for a house fire or a chirping smoke detector, is measured and contributes our percentage cost of the County dispatch system. Those calls increased 3% last year and cost the city an additional \$17,000.

Another challenge in estimating savings is due both to compensation and training requirements. Before moving to County dispatch, the City was having a measurable challenge retaining and recruiting qualified dispatch personnel. This challenge is no more.

Importantly, however, what we do know for sure is that the level of service has improved measurably. Our Fire Chief, Police Chief and Harbor Director all report measurable benefits resulting from the depth and regional interoperability of regional dispatch.

A good example of that is the Officer-Involved Shooting in Morro Bay in October of last year. As that incident was occurring, four different regional dispatchers were providing direct assistance to that single incident. For a long period, a single dispatcher continued on the phone with the reporting party (the person who called 911) and was essentially receiving a play by play of the incident as it unfolded. At the same time, three other dispatchers were coordinating the response of Morro Bay PD, SLO County Sheriff, CHP, Pismo and Atascadero PD personnel and medical response. Had the City still relied on our “in-house” dispatch, we would have had only one dispatcher trying to do all that effectively.

Chief Knuckles brief summary of our transition to Council dispatch follows:

“In short, going to a regional dispatch system has improved our dispatch with mutual aid to our low frequency high risk incidents. Our waterfront and ocean rescue teams to include fire, harbor, County Fire, and USCG are all dispatched at the same time. With a true Computer Aided Dispatching (CAD), we have Harbor Department responding with Fire to all medical aids on the west side of the Embarcadero.

Most of all, the incidents where we depend on mutual aid has been a great improvement, we are getting simulcasting dispatching with our fire partners. Yes, there are issues from time to time - our system is still run by humans. The reaction and attitude to fix our issues have been positive and quick. I truly believe going to a regional dispatching has been the best operational improvement we have done in decades. I am very glad we did it.”

In sum, our professional staff’s assessment is that the City’s move to regional dispatch has improved public safety and costs are likely roughly the same, if not slightly lower.

This is a very different situation from the question of outsourcing all of Police, Fire or Harbor, all areas in which we will almost certainly not achieve a higher level of service from a contracted relationship.

When, if ever, should the City consider researching contracted Police, Fire or Harbor services again?

There are certainly some who would answer “never”, and those voices should be heard. More to the point though, City Councils change every two years and even ordinances enacted by one Council can be changed by the next. So, a statement of “never” is in effect “never - until the next election”.

It is appropriate, though, for this City Council to make a thoughtful statement with regard to this question. This is especially important since our Police, Fire and Harbor officers have lives, must make employment decisions, and would likely prefer not to work in a situation in which the City may or may from one year to the next consider outsourcing these departments.

That said, the economy and fiscal conditions in the city can change, as can the priorities of the community.

Considering Morro Bay’s current finances, our 10-year budget forecast and the current priorities in our community, staff recommends the Council not only determine not to further research outsourcing Police, Fire or Harbor Operations now, but also take this questions off the table for the foreseeable future.

CONCLUSION and RECOMMENDATION

While outsourcing the Morro Bay Police Department might result in savings of up to \$500,000 per year, money that could be spent on other City priorities such as improving streets, it is highly unlikely that the City will see an improvement in the level of law enforcement services currently provided by the Morro Bay Police Department.

Further, the value the community places on in-house, versus contracted, police services is likely higher than the value the community places on streets. That is, were a \$500,000 savings possible, the community would likely choose in-house police over improved streets.

Further, this assessment is likely accurate not only for Morro Bay Police but also for the Fire Department and Harbor Patrol Operations.

In August 2015 the City Council determine to consider research Management Partners recommendations with regard to outsourcing Police, Fire and Harbor in 2017.

Based on the above, the staff recommends the Council determine to not consider a contracted relationship for the delivery of Police, Fire or Harbor Operations until 2025, or such a time as the financial situation of the City changes in a way that requires substantial cuts achievable only through outsourcing and possible service reductions.